FINANCIAL PERFORMANCE ANALYSIS OF PT. ACE HARDWARE INDONESIA, TBK. BEFORE AND AFTER THE LAUNCH OF RUPARUPA.COM

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ABSTRACT

With the ever-changing dynamics of people's behaviour in shopping, technology advances encourage every business sector to continue innovating and to adapt to changing needs fast. The e-commerce industry has changed the landscape of offline business retails to where many of them have shifted their business. PT. Ace Hardware Indonesia, Tbk. is no exception as its parent company launched its business website, ruparupa.com in 2016. The main objective of this paper is to analyze the financial performance of PT. Ace Hardware Indonesia, Tbk ('the company'), especially in regards to its liquidity, solvency, profitability, efficiency and valuation performances before and after the launch of ruparupa.com based on annual financial reports from the period 2014 to 2019. The research method used in this study was descriptive by using financial ratio analysis and a sample paired t-test was also applied to test 11 financial ratios. The two combined methods are used to determine if there are any significant differences regarding the company's financial performances after the website launch. The study discovered the overall financial performance of PT. Ace Hardware Indonesia, Tbk. was not significantly affected after the launch. The only significantly affected financial ratio is Earning per Share (EPS). The remaining ratios are insignificantly affected with some positive and negative changes. The authors believe that the finding will be helpful and give a better insight to managers for decision making.

Keywords: E-commerce, Financial Performance, Liquidity, Profitability, Solvency, Hardware Retail Industry

INTRODUCTION

Technological advances encourage every business sector to keep innovating and adapting to changing needs very quickly. E-commerce as a product of this advancement, is a business model that leads to electronic transactions becoming an appealing option for organizations or individuals. Slowly, many offline retailers are turning to e-commerce. Kawan Lama Group which is the parent company of ACE Hardware, Informa and Toys Kingdom is no exception. PT. Ace Hardware Indonesia, Tbk. is a pioneer and the center for the most comprehensive home and lifestyle products. The company keeps making things easier for its customers by expanding the business to the e-commerce sector through ruparupa.com site. In April 2016, PT. Omni Digitama Internusa, a subsidiary of PT. Ace Hardware Indonesia, Tbk., launched the e-commerce business website specialized in home and living products. The website is an exclusive platform for products of Kawan Lama Group. With the launch of ruparupa.com, this innovation is helpful for customers who in this era opt to shop online rather than having to visit the store even though in this sector customers feel more satisfied choosing their products directly at the store. (Laudon, 2017).

PT. Ace Hardware Indonesia, Tbk., listed on Indonesian Stock Exchange using ticker code of 'ACES', was first established in 1995 as a subsidiary of PT. Kawan Lama Sejahtera. With the company' first store opened in West Java, the company continues to expand and is now Indonesia's leading retail company in the home improvement and lifestyle sector with 156 stores located across Indonesia. Their products comprise three categorized main segments which are home improvement, lifestyle and toys.

Although a number of researches on the financial performances of the hardware retail industry have been released, the scope of the research tends to be wider. Analysis of the financial impact of e-commerce presence on the said industry is still limited. Therefore, this study was conducted to see if there is any difference in PT. Ace Hardware Indonesia, Tbk.'s financial performance before and after the launch of ruparupa.com. The research used financial ratio comparison and sample paired t-test to perform the analysis.

LITERATURE REVIEW

Retail Industry in Indonesia

Indonesia's retail sector has been growing at a rapid pace since 2005 which is directly proportional with the growth of the middle class. Retail is a business model to sell a product or service for individual consumer own use. Some retailer functions are dealing directly with customers, breaking bulk, sells various merchandise and perform marketing functions (e.g sales, promotions, point of purchase display).

There are four categories of retail such as hardline or hard goods, soft goods or consumables, foods, and arts (Maverick, 2020). Hard goods encompass a range of products like furniture, appliances, tools, electronics, jewelry and sporting goods. There are many types of retail companies, but there are a few companies that sell furniture, appliances and tools like The Home Depot, IKEA, Ace Hardware and so on.

PT. Ace Hardware Indonesia, Tbk ('ACES') is known as a pioneer and one stop shopping for good quality products of the home improvement and lifestyle sector. The company was officially listed in Indonesia Stock Exchange on November 6, 2007. The number of shares in this company is more than 1.7 billion shares and are mostly held by PT. Kawan Lama Sejahtera with share ownership of 59.97%. The company recorded increased net income from 2014 to 2019. According to the report of the company, its net income in 2014 was IDR 556 billion, an increase of IDR 53 billion from 2013. A rise of IDR 121 billion occurred in 2016, from the previous year net income of IDR 584 billion. In 2017, the company increased its net income of DIR 74 billion, which was less than previous year. In 2018, it increased for IDR 195 billion from 2017 and kept increasing for IDR 60 billion in 2019. Although the company kept showing increasing profit annually, the amount of profit year per year was not stable.

Table 2.1 Profit Growth Percentage of PT. Ace Hardware Indonesia, Tbk Period 2014 – 2019

Year	Net Income Y	Net Income Y-1	Profit Growth Percentage
2014	556.705.988.528	503.004.238.919	10%
2015	584.873.463.988	556.705.988.528	5%
2016	706.150.082.276	584.873.463.988	17%
2017	780.686.814.661	706.150.082.276	10%
2018	976.273.356.597	780.686.814.661	20%
2019	1.036.610.556.510	976.273.356.597	6%

Source: *PT. Ace Hardware Indonesia, Tbk. 2014 - 2019 Annual Reports*

From the table above, it can be seen that the company had succeeded in increasing its net income consistently from 2014 to 2019. However, looking at the percentage of profit growth, there was a steep downturn from 2018 to 2019 period. According to a recent article ("Subdued growth in 2019 for Ace Hardware Indonesia," 2020), one of the factors responsible for the decline is due to Indonesia missing its economic growth target which GDP only grew 5.02% annually in 2019, slowing from 5.17% in 2019.

E-commerce

Electronic commerce describes a broad range of processes, technologies and practices that can assist in conducting business transactions without using paper as a transaction medium. It can be done via email or world wide web. With e-commerce, operational costs can be reduced in order to compete and keep up with growing demands that require fast and accurate service.

In line with the technology development and the growing number of internet users in Indonesia. Kawan Lama Group entered the e-commerce market by launching ruparupa.com as a solution for customers to purchase ACE Hardware, Informa and Toys Kingdom products in 2016. The contribution of e-commerce may not be profitable at first like physical stores and counted as long-term investment for Kawan Lama Group.

Financial Statement

According to Segal (2020), fundamental analysis (FA) is a method for measuring the security's intrinsic value by examining related economic and financial factors. Fundamental analysis uses quantitative information from financial statements to make investment decisions. The financial statement shows the current company's financial condition. There are many sources of financial statements such as balance sheet, profit and loss statement, statement of owner's equity, note of financial report and cash flow statement (Kasmir, 2016).

Financial Performance

Performance is an accomplishment or successful indicator of a management. To assess financial performance, it is important to use a ratio of measurement to determine the company's value. Internal analysis involving a comparison between multiple accounting periods allows analysts to trail changes in the business. Based on Stobierski (2020), there are metrics in financial statements that need to be understood such as profit margin, working capital, current ratio, acid-test ratio, debt-to-equity ratio, inventory turnover, asset turnover, ROE and ROA. The metrics used to imply how companies perform over time are called ratio analysis. Ratio analysis is the quantitative analysis of information from the company's financial statements or share price (Bloomenthal, 2020). These ratios can be categorized into several general types as below:

a. Liquidity Ratio

Liquidity ratio measures a company's ability to repay short-term liabilities and cash flows. Generally, a high liquidity ratio shows the company is more liquid and has better coverage in paying its short-term debts. Common liquidity ratios are current ratio and acid-test ratio.

b. Solvency Ratio

Solvency ratio or leverage ratio is used to evaluate how a company deals with long-term obligations. Common solvency ratio is debt-to-equity ratio.

c. Profitability Ratio

Profitability ratio determines a company's ability to generate profits from its operations. It is better to have a higher ratio than the previous period as it indicates the company is doing well. Common profitability ratios are profit margin ratio, return on assets (ROA) ratio and return on equity (ROE).

d. Efficiency Ratio

Efficiency ratio is used to analyze how well a company uses assets and liabilities to generate income. Common efficiency ratios are working capital turnover, asset turnover and inventory turnover.

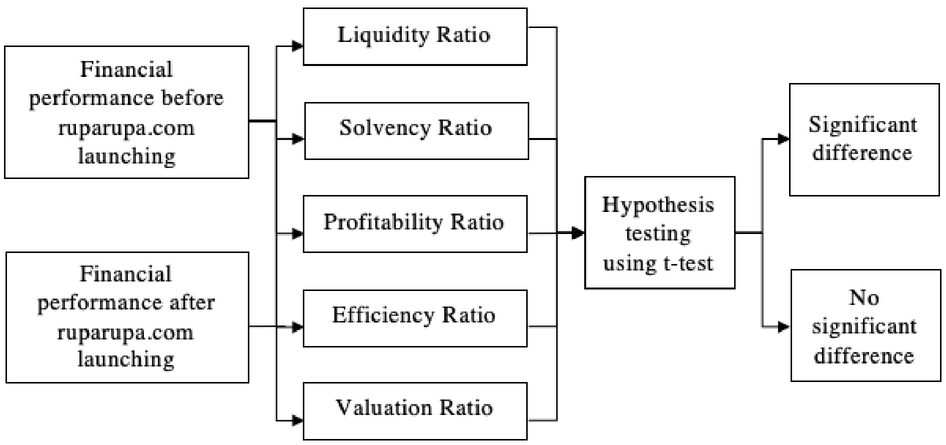
e. Valuation Ratio

Valuation ratio is commonly used to analyze the attractiveness of an investment in a company. The ratio determines the fair value of a public company. Common valuation ratios are earning per share (EPS) ratio and price to earnings (P/E) ratio.

RESEARCH METHOD

This study applied descriptive financial ratio analysis and paired sample t-test based on eleven variables as detailed in the variable section to determine if there were significant differences in the financial performance of PT. Ace Hardware Indonesia, Tbk. before and after Kawan Lama Group launched ruparupa.com in 2016. The source of data used for the analysis was secondary data collected from the company's audited annual financial statements from 2014 until 2019. The data was then processed and analyzed using a comparative analysis method. Essentially, the collected data was divided into two periods, pre ruparupa.com launching using data from 2014, 2015 and 2016 and post ruparupa.com launching from 2017, 2018 and 2019. The method was chosen as the authors considered it appropriate to examine if there had been any significant differences, be it in increase or decrease, in the financial performance of the company after the launching of the website.

Research Model



The above research model represents the process of analysing any significant differences of the company's financial performance since the launch of the website. The model was adapted from previous research conducted by Hendratno et al., in 2020.

Hypothesis

The ruparupa.com website is a product of business expansion to raise the company's financial performance. The problem that the authors here were trying to solve was whether the website establishment gave significant differences to the company's financial performance. According to Mourougan and Sethuraman (2017), building up a well worked hypothesis is half the answer to a research problem. Developed from the literature review, the hypotheses below were tested in this study:

H1: There is a significant difference of current ratio in financial performance between before and after the ruparupa.com launching in 2016.

H2: There is a significant difference of acid-test ratio in financial performance between before and after the ruparupa.com launching in 2016.

H3: There is a significant difference of debt-to-equity ratio in financial performance between before and after the ruparupa.com launching in 2016.

H4: There is a significant difference of profit margin ratio in financial performance between before and after the ruparupa.com launching in 2016.

H5: There is a significant difference of ROA ratio in financial performance between before and after the ruparupa.com launching in 2016.

H6: There is a significant difference of ROE ratio in financial performance between before and after the ruparupa.com launching in 2016.

H7: There is a significant difference of working capital turnover ratio in financial performance between before and after the ruparupa.com launching in 2016.

H8: There is a significant difference of asset turnover ratio in financial performance between before and after the ruparupa.com launching in 2016.

H9: There is a significant difference of inventory turnover ratio in financial performance between before and after the ruparupa.com launching in 2016.

H10: There is a significant difference of EPS ratio in financial performance between before and after the ruparupa.com launching in 2016.

H11: There is a significant difference of P/E ratio in financial performance between before and after the ruparupa.com launching in 2016.

Variables

This study applied financial analysis ratios as the variables used to test the hypothesis testing. The variables are listed below:

1. Current Ratio. It measures a company's ability to pay its short-term liabilities with current total assets of the company. Generally, the higher this ratio is, the better it is for the creditors.

$$Current\ Ratio\ = \frac{Current\ Assets}{Current\ Liabilities}$$

2. Acid-test Ratio. Also known as quick ratio, it is useful to see if the company has enough cash to cover its immediate liabilities. If the company's acid-test ratio is much lower than current ratio, it usually means its current assets depend highly on inventories.

$$Acid - test\ Ratio\ = \frac{Current\ Assets\ -\ Inventories}{Current\ Liabilities}$$

3. Debt to Equity Ratio. This ratio can be used to evaluate how much leverage a company is using. The lower leverage ratio indicates a company or stock with lower risk to shareholders.

$$Debt\ /\ Equity\ Ratio = \frac{Total\ Liabilities}{Shareholder\ Equity}$$

4. Profit Margin Ratio. It determines how much profit the company can generate for each dollar of sale.

$$Profit\ Margin\ Ratio\ = \frac{Net\ Income}{Net\ Sales\ Revenue}$$

5. Return on Assets Ratio (ROA). This ratio indicates how efficient a company utilizes its assets to generate profit or net income. The higher the ratio is, the better it is because it hints more asset efficiency.

$$Return\ on\ Assets\ Ratio\ (ROA)\ =\ \frac{Net\ Income}{Total\ Assets}$$

6. Return on Equity Ratio (ROE). It tells investors how well a company can generate profit with the money they have invested.

$$Return\ on\ Equity\ Ratio\ (ROE)\ =\ \frac{Net\ Income}{Shareholders'\ Equity}$$

7. Working Capital Turnover Ratio. This ratio indicates how much a company generates revenue and uses the available cash on operation within a year. The high working capital turnover ratio means that company management is very efficient in using a company's assets and liabilities for supporting sales.

$$Working\ Capital\ Turnover\ Ratio\ =\ \frac{Sales\ or\ Revenue}{Working\ Capital}$$

$$Working\ Capital\ =\ Total\ Current\ Assets\ -Total\ Current\ Liabilities$$

8. Asset Turnover Ratio. This ratio determines the sales revenue by using their own assets. The higher the asset turnover ratio means the company is performing better and implies that a company generates more revenue per dollar of assets.

$$Asset\ Turnover\ Ratio\ =\ \frac{Sales\ or\ Revenue}{Total\ Assets}$$

9. Inventory Turnover Ratio. It measures how fast a company sells inventory. This ratio helps in decision making for pricing, manufacturing, marketing and purchase of new inventory. The higher ratio implies that a company is strong in sales.

$$Inventory\ Turnover\ Ratio\ =\ \frac{Cost\ of\ Goods\ Sold}{Inventory}$$

10. Earning per Share (EPS) Ratio. It indicates how much money a company makes per its share of stock and usually is used to measure corporate value. The higher the ratio is, the more profit the company makes to distribute to shareholders.

$$Earning\ per\ Share\ (EPS)\ Ratio\ =\ \frac{Net\ Income\ -\ Preferred\ Dividends}{Number\ of\ Shares\ Outstanding}$$

11. Price to Earning (P/E) Ratio. This ratio calculates the value of a company's share price with its EPS. It is used to compare a company against its previous records and to see whether the company is overvalued or undervalued. A high ratio hints that high growth rates are expected by the investors in the future.

$$Price\ to\ Earning\ (P/E)\ Ratio\ =\ \frac{Market\ Price\ per\ Share}{Earning\ per\ Share\ (EPS)}$$

RESULTS AND DISCUSSIONS

Hypothesis Testing

Table 4.1 below summarizes the result of the paired sample t-test of the company's financial ratio performances. This test used p-value as the measuring instrument to prove the hypothesis. The hypothesis would be accepted if the p-value score is < 0.05, otherwise if the score is > 0.05 it would be rejected.

Table 4.1. Summary of PT. Ace Hardware Indonesia, Tbk Ratio Analysis with T-Test

Variables	Period	Mean	Paired sample t-test *(p-value)*	Decision
Liquidity Ratio				
Current Ratio	Pre	6.11	0.065	Reject the first hypothesis
	Post	7.20		
Acid-test Ratio	Pre	2.50	0.112	Reject the second hypothesis
	Post	3.02		
Solvency Ratio				
Debt-to-Equity Ratio	Pre	24.57	0.210	Reject the third hypothesis
	Post	25.54		
Profitability Ratio				
Profit Margin	Pre	13.10	0.411	Reject the fourth hypothesis
	Post	13.32		
ROA	Pre	18.55	0.172	Reject the fifth hypothesis
	Post	17.83		
ROE	Pre	23.10	0.223	Reject the sixth hypothesis
	Post	22.38		
Efficiency Ratio				
Working Capital Turnover	Pre	2.29	0.112	Reject the seventh hypothesis
	Post	2.03		
Asset Turnover	Pre	1.42	0.171	Reject the eighth hypothesis
	Post	1.34		
Inventory Turnover	Pre	1.69	0.062	Reject the ninth hypothesis
	Post	1.60		
Valuation Ratio				
EPS	Pre	3.59	0.012	Accept the tenth hypothesis
	Post	5.43		
P/E Ratio	Pre	27.03	0.099	Reject the eleventh hypothesis
	Post	27.70		

The result of the hypothesis testing above found the p-value scores of almost all ratios were more than 0.05, hence the hypotheses were rejected. **This indicated that there were no significant differences in liquidity, solvency, profitability, efficiency and one valuation ratio performances after the launch of ruparupa.com website**. The slight differences explained that the company's decisions and conditions such as the operational activities in generating net income, its ability to provide profit to shareholders and the judgements in regards to asset utilization had not shown a significant difference.

However, it can be seen that earning per share (EPS) ratio had a positive significant difference of 1.84% with p-value score of 0.012. Since the p-value was less than 0.05, therefore the authors accepted the tenth hypothesis. **In regards to the company's EPS ratio, it could be concluded that there was a significant difference of the ratio in financial performance between before and after the ruparupa.com launching in 2016.**

Despite the insignificant differences, some financial ratios were proven to have positive changes, which illustrated increasing performances after the launch of the website. They were current ratio and acid-test ratio, debt-to-equity ratio, and lastly profit margin ratio and P/E ratio. **The remaining ratios such as ROA, ROE, and ratios which imply the company's efficiency in generating revenue like working capital, asset and inventory turnover showed insignificant negative differences after the event.**

Liquidity Ratio Performance

The graphs below show the company's liquidity by the percentage of current ratio and acid test ratio from 2014-2019. The percentage shows the company has a high liquidity since the current ratio increased from 5.09% to 7.26% in 2014 to 2016, decreased from 7.02% to 6.49% in 2017 to 2018 and increased to 8.08% in 2019 with an average 6.65%. The rise to 8% in 2019 meant that for every IDR 1 of debt, the company was able to pay it off with IDR 8.

The acid test ratio increased from 2.05% to 3.17% in 2014 until 2016, decreased from 3.16% to 2.5% in 2017-2018 and increased to 3.4% in 2019 with an average 2.76%. The acid-test ratio was much lower than current ratio, this meant the company current assets were highly dependent on inventory. Both ratios show above 1 ratio. These reflected that the company was in a good condition to cover their short term debts and it had liquid assets to cover its current liabilities.

Current ratio and acid-test ratio seemed to be not significantly affected by the website launch. Although, the average current ratio and acid-test ratio both increased by 1.09 and 0.51 respectively after the event.

Figure 4.1 ACE Hardware Current Ratio

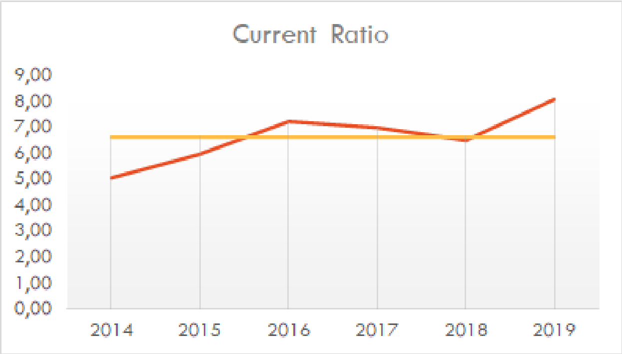
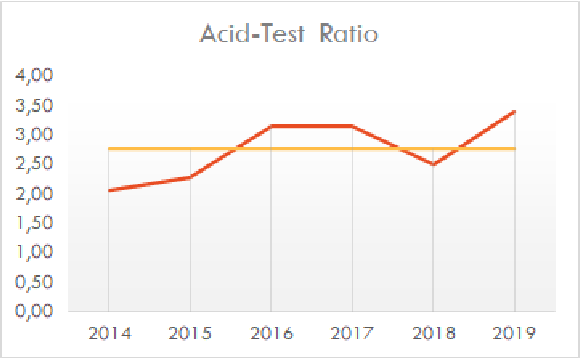


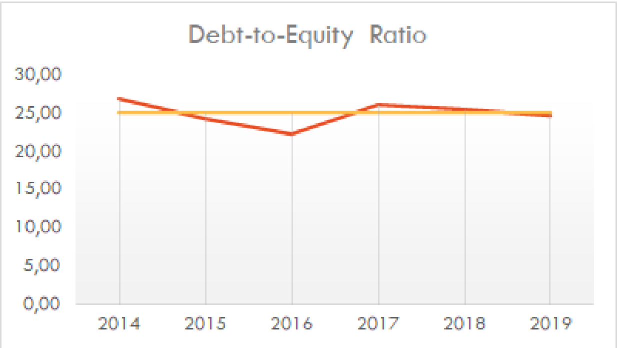
Figure 4.2 ACE Hardware Acid-test Ratio



Solvency Ratio

This graph below displays the company's solvency ratio by the percentage of debt-to-equity ratio from 2014 to 2019. The graph shows the trend ratio decreased from 27.02% to 22.38% in 2014-2016, increased 3.78% in 2017 and remained stable from 25.63% to 24.83% in 2018 to 2019 with an average 25.05%. The lower ratio indicates the company had a lower risk to shareholders. The company had enough equity and assets to pay back their debt. The t-test shows the website launching did not give any significant impact to solvency ratio. The only impact was a positive change in the average ratio increasing 0.98% from 24.57% pre website launching.

Figure 4.3 ACE Hardware Debt-to-Equity Ratio



Profitability Ratio

These graphs below show the trend of the company's profitability that is reflected by the percentage of profit margin, ROA and ROE in 2014-2019. The profit margin graph shows an unstable percentage from 12.39% to 12.98% with an average around 13.21% in 2014-2019. This meant the company generated profit margin on said average from every sale. As can be seen, the profit margin went down in 2017 and 2019. These might have been caused by the increased operating expenses because the company had opened 32 stores in 2018 and 20 stores in 2019. As the number of stores increased, the operating expenses rose as well.

The ROA graph shows a stable percentage although decreased from 18.82% to 17.51% with an average around 18.19% in 2014-2019. The ROE graph shows a stable percentage from 23.90% to 21.86% with an average around 22.74% in 2014-2019. This meant for every rupiah invested in the company, it could generate IDR 22 of net income.

From these graphs, it may be said that the company's profitability during 2014-2019 was unstable before and after the launch of ruparupa.com and expansion of new stores. Additionally, the increased amount of sales was not bigger from the previous period.

Based on the t-test, it could be concluded that there was not any significant impact of launching the website in regards to profitability ratio. Although there was an increase in the average profit margin from 13.10% to 13.22% post website launching. On the other hand, average ROA and ROE both dropped by the same number of 0.72%.

Figure 4.4 ACE Hardware Profit Margin

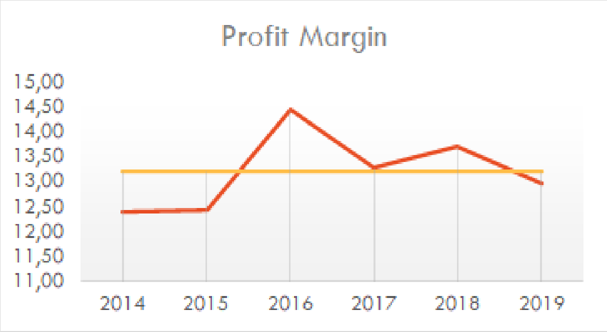


Figure 4.5 ACE Hardware ROA

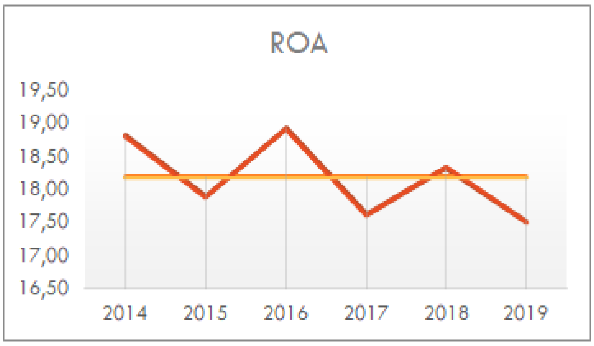
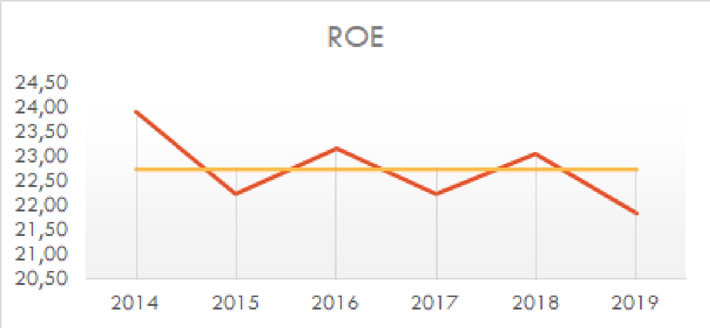


Figure 4.6 ACE Hardware ROE



Efficiency Ratio

These graphs below show how efficiently the company generated income with their own assets and liabilities from working capital turnover ratio, asset turnover ratio, and inventory turnover ratio. The working capital turnover graph shows the decreased trend ratio from 2.58 to 1.99 with an average 2.16 in 2014-2019. The downturn line could indicate a low turnover rate, which meant the funds for the company's operations had not been used efficiently to generate revenue. Another explanation is that the company had too much idle inventory when they could have been converted into sales.

The asset turnover ratio graph shows the decreased trend ratio from 1.52 to 1.31 in 2014-2016 and slowly increased in 2017-2019, although the ratio was still below the average within 2014-2019. The slow rise from recent years could be attributed to the company's expansion and opening of more stores, thus increasing the total assets year per year which eventually increased the sales generated from its owned assets. It also meant in the past three years, the generated sales were still greater than the assets.

The inventory turnover ratio graph shows the same trend from 1.81 to 1.60 with an average 1.64 in 2014-2019. In 2017, the company obtained more turnover. It was because there was a difference in increased assets, especially the inventory and sales due to yet again the expansion of some new stores by the company. However, in 2018 the ratio faced a downturn again which was probably because of weak sales.

The results of the t-test also added to the fact the website's existence had not been of any help to boost the company's average ratio as they hinted decreasing means of ratio after its launch since 2016. The working capital turnover ratio dropped by 0.26 while asset and inventory turnover declined by 0.08 and 0.09 respectively.

Figure 4.7 ACE Hardware Working Capital Turnover Ratio

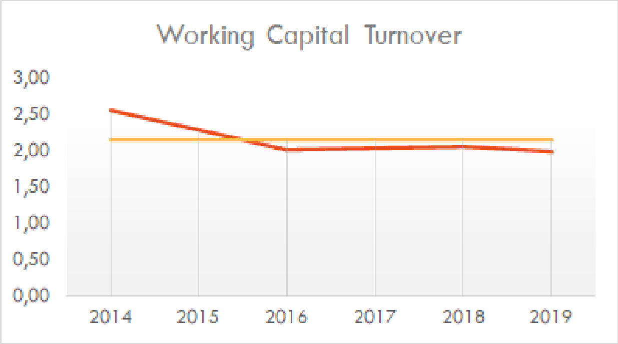


Figure 4.8 ACE Hardware Asset Turnover Ratio

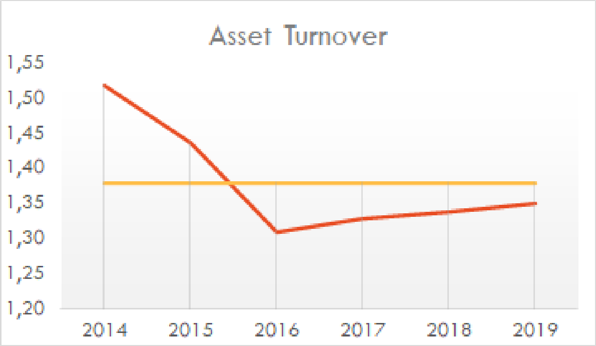
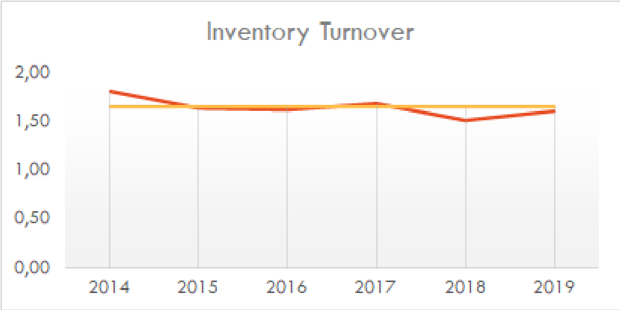


Figure 4.9 ACE Hardware Inventory Turnover Ratio



Valuation Ratio

The graph below shows the trend of the company's attractiveness of investment by the percentage of Earning Per Share (EPS) and Price/Earnings Ratio (P/E Ratio). As shown on the EPS graph, it seemed to have increased from 3.25% to 6.04% with an average 4.51% in 2014-2019. The P/E Ratio graph remained stable throughout the years with an average 27.36% in 2014-2019. These might have been caused by the launch of ruparupa.com in 2016 and the expansion of some new stores by the company. As evidenced by the hypothesis testing, the e-commerce website helped increase the company's EPS significantly for as long as it has existed. Combined with the fact that the company has always been profitable and its net income annual increment, shareholders could be rest assured to receive more profits. Additionally, prospective investors would consider the company appealing to invest in as higher EPS means a profitable business.

Figure 4.10 ACE Hardware EPS

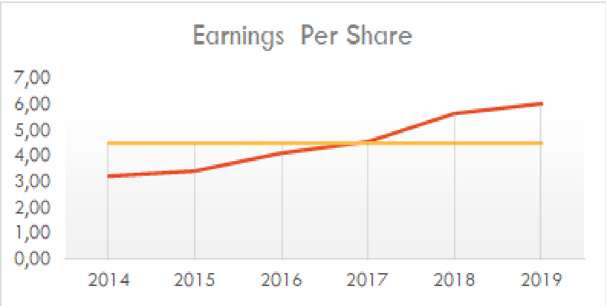
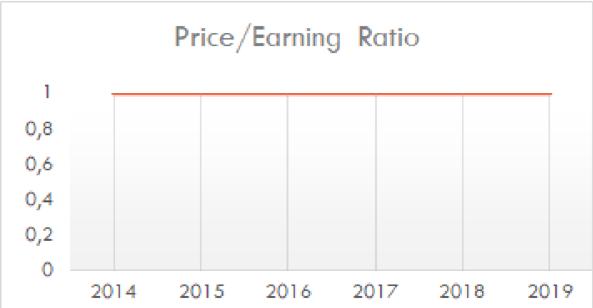


Figure 4.11 ACE Hardware P/E Ratio



LIMITATIONS

This study focused on the financial performance analysis of PT. Ace Hardware Indonesia, Tbk. before and after the launch of its parent company's website, ruparupa.com in 2016. The compared periods only used three years prior to and three years after the launch. Since the business model is considered to still be in its early stages, deep and further analysis of its effect on the company could not be performed as it requires more source of data for a longer period. The unavailability of competitors' financial statements also limited this study as it would have been useful to compare the analysis to the industry's benchmarks.

CONCLUSION / RECOMMENDATION

The purpose of this study is to discover whether there was a significant difference in the company's financial performance before the launch of ruparupa.com in 2014-2016 and after the launch in 2017-2019, using financial ratio analysis and paired t-test which was applied to test the hypothesis of eleven variables. The study discovered that the overall financial performance of PT. Ace Hardware Indonesia, Tbk. was not significantly affected after the launch as can be proven by the hypothesis performed above. The only affected financial ratio was EPS. This study also found that the remaining financial ratios were insignificantly affected which were current ratio, acid-test ratio, debt/equity ratio, profit margin, ROE, ROA, working capital turnover, asset turnover, inventory turnover and price/earnings ratio. The study has broadened the financial ratio analysis theory from the hardline retail industry and is hoped to give a better insight to managers for decision making.

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